

SUBCOMMITTEE No. 1

EDUCATION

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K-12 EDUCATION

0558 Office of the Secretary For Education

The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation. The Office of the Secretary for Education (OSE) administers several education programs, including the Academic Volunteer and Mentor Service Program, the Governor's Reading Award Program. For the current fiscal year, the costs of the OSE are funded through the Governor's Office of Planning and Research (0650) pending legislation to establish the Secretary statutorily.

2002-03 Reductions

As adopted by the Legislature, reductions in 2002-03 include:

- \$834,000 General Fund (Proposition 98) for the Academic Volunteer and Mentor Service Program and School-to-Career Program.
- \$122,000 General Fund and 0.3 personnel year.

2003-04 Reductions

The 2003-04 budget proposes \$3.4 million in reductions to Office of the Secretary of Education. They include:

- \$2,000,000 General Fund (Proposition 98) to eliminate the School to Career Technology Grant Program
- \$756,000 General Fund (Proposition 98) for the Academic Volunteer and Mentor Service Program
- \$642,000 and 7.7 personnel years in state operations.

Issues

- Reductions to the Academic Volunteer and Mentor Service Program. The Governor proposes to reduce this program as a part of a package of reductions to selected categorical programs in 2003-04. Under this program, university students offer tutoring services to 20,000 at-risk children and youth.
- Elimination of the School-to-Career Partnership Grants Program. This program was established by Chapter 793, Statutes of 2000 (AB 1873, Wiggins) for the purpose of administering a competitive matching grant program to local entities. The program is a collaboration among OSE, SDE, the CA Community Colleges Chancellor's Office, and the Health and Human Services Agency. The Governor signed the AB 1873 with the caveat that unless the nonprofit and private sectors exceeded this amount in matching funds, he would not continue allocating funds toward this program.

6110 Department of Education

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, for the education of approximately 6.1 million students from infancy to adulthood. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, education is the responsibility of 985 school districts, 58 county offices of education, and over 8,700 schools. More than 301,000 teachers are employed in public schools statewide.

The 2003-04 Governor's budget proposes nearly \$53.0 billion for K-12 education, which reflects a decrease of \$497 million (0.9 percent) below the proposed 2002-03 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals \$8,899 in 2003-04, a decrease of \$173 below the \$9,072 per-pupil in 2002-03.

Table 1
Summary of Revenues
(dollars in millions)

	2002-03 Revised	2003-04 Proposed	\$ Change	% Change
General Fund	\$28,286	\$27,390	-\$896	-3.2
Lottery Fund	800	800	0	0.0
Other State Funds	113	80	-34	-29.7
Local Property Taxes	13,140	13,775	635	4.8
Local Miscellaneous	3,716	3,716	0	0.0
Local Debt Service	828	828	0	0.0
Federal Funds	6,599	6,397	-202	-3.1
Total	\$53,481	\$52,985	-\$497	-0.9

As indicated by Table 1, the \$53.0 billion for K-12 education includes \$27.4 billion from the state General Fund, \$13.8 billion in local property taxes, \$6.4 billion in federal funds, \$800 million in state lottery funds and \$80 million in other state funding.

The state General Fund provides 53 percent of school funding, while property taxes and other local revenues provide 35 percent and federal funds provide 12 percent. The state lottery contributes approximately 1.51 percent of this total.

As proposed, the budget General Fund decreases by \$896 million (3.2 percent) and local property taxes increase by \$635 million (4.8 percent). The budget also reflects a reduction of \$202 million (3.1 percent) in federal funds.

Proposition 98

Total Proposition 98 funding for K-12 education in 2003-04 is proposed at \$44.1 billion, an increase of \$182 million (1.6 percent) over the revised 2002-03 budget.

Table 2
Proposition 98 Summary
(dollars in millions)

	2001-02	2002-03 Revised	2003-04 Proposed	\$ Change	% Change
<i>General Fund</i>					
K-12 Education	\$38,363	\$39,297	\$39,939	643	1.6
Community Colleges	4,429	4,505	4,063	-442	-9.8
Other Departments	111	109	90	-19	-17.2
Loan Repayment	350	0	0	0	0
Total, General Fund	\$29,682	\$28,898	\$28,225	-672	-2.4
Local Revenue	\$13,570	\$15,013	\$15,868	854	5.7
Total, State and Local Funds	\$43,252	\$43,911	\$44,093	182	.4
Proposition 98 K-12 ADA	5,809,083	5,895,275	5,954,154	58,879	1.0
K-12 funding per ADA (actual)	\$6,455	\$6,536	\$6,708	\$172	2.7

As indicated in Table 2, of the total \$44.1 billion in Proposition 98 spending proposed for 2003-04, \$39.9 billion is attributable to K-12 and \$4.1 billion is for Community Colleges. The K-12 share of the Proposition 98 minimum funding level increases by \$643 million; whereas Community Colleges funding decreases by \$442 million in the budget year.

The 2003-04 budget proposes to provide K-12 education funding that will exceed the Proposition 98 minimum guarantee by an estimated \$104 million. In making this estimate, the Department of Finance uses Test 3, as adjusted to reflect the reduction of Child Care funds. The Governor proposes to shift Child Care programs out from under Proposition 98 as a part of a local government realignment proposal in 2003-04.

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 58,879 students in the budget year, an increase of 1.00 percent over the current year. Average per-pupil Proposition 98 funding is estimated to be \$6,708 in 2003-04, an increase of \$172 over the \$6,536 per pupil funding in 2002-03.

Proposed Adjustments to 2002-03 Budget Act

Governor's Proposal

The Governor advanced proposals in December and January to reduce the 2002-03 Budget Act for Proposition 98 by \$2.7 billion – including \$2.2 billion for K-12 education -- as part of an overall package of \$10.2 billion in reductions and adjustments to address a massive state revenue shortfall in the current and budget year.

The Governor's \$2.2 billion reduction proposal in the current-year involves three major categories of reductions:

Across -the -Board Reductions -- \$1.5 billion. This proposal includes a 2.15 percent reduction to general purpose revenue limits (\$612.4 million). The proposal also reduces all education categorical programs (\$843.9 million) including a 10.85 percent reduction to most categorical programs and a minimum 3.66 percent reduction for all programs. In addition, the proposal reduces Basic Aid school district revenue limits (\$15.3 million) by 2.15 percent.

Other Targeted Programs Reductions -- \$157 million. The Governor proposes reductions to several specific education programs that include: eliminating State 3 Child Care effective April 2003 (98.6 million), delaying new High Priority Schools grants (\$22.6 million), reducing Adult Education funds commensurate with an anticipated audit resolution (\$13.5 million), capturing of the ROC/P property tax offset (\$11.4 million), eliminating of state funds to support Workforce Investment Act youth services (\$7.0 million), eliminate new Healthy Start grants (\$2 million) and delete funding for new CSIS consortia (\$1.6 million).

Funding Shifts and Deferrals -- \$516 million. The Governor proposes to revert unexpended education program funds from previous years (\$438 million) to the Proposition 98 Reversion Account and use these funds in 2002-03 to cover the costs of selected education programs – Adult Education and Regional Occupational Centers and Programs (ROC/Ps). In addition, this proposal includes a reduction in state general funds for Stage 3 Child Care (\$78.3 million) by using one-time federal funds to offset cover remaining program costs under the Governor's proposal.

Program Savings -- \$69.4 million. The Governor proposes reductions numerous programs to reflect natural savings in the program often due to lower than expected participation, unexpected savings, and alignment of program spending with the program services and payment schedules.

The Governor proposed most of these reductions, particularly the across the board reductions and other targeted program reductions, as ongoing reductions that would carry over into the budget-year. The Governor also proposed legislation to provide greater flexibility in the use of reserves to manage the effects of proposed 2002-03 reductions.

Legislative Action:

The Legislature has adopted a revised 2002-03 K-12 education budget, as contained in AB 8X (Oropeza), (First Extraordinary Session). The Legislature's revised plan provides \$2.2 billion in reductions and therefore meets the overall level of K-12 education reductions proposed by the Governor. However, these proposals differ in several ways.

First, the Legislature rejected the across-the-board reductions proposed by the Governor totaling \$1.5 billion and rejected many of the targeted program reductions proposed by the Governor, including the elimination of Stage 3 Child Care, delay of High Priority Schools grants, reduction of Adult Education funds pending audit resolution, capture of the ROC/P property tax offset, and elimination of new Healthy Start grants.

Secondly, the Legislature identified alternative reduction proposals as contained in AB 8X, including:

\$1.1 billion in savings resulting from the deferral of P-2 school apportionment payments from the current year to the budget year. This proposal would permanently shift June payments to July each year;

\$125.5 million to defer additional education mandate claims from the current year to the budget year;

\$103 million reduction in instructional materials funds to delay the requirement that all schools districts purchase instructional materials “fully” aligned to standards;

\$76 million to delay payments for the Immediate Intervention/Underperforming Schools (II/USP) and High Priority Schools programs to the budget year;

\$75 million in savings for supplemental instruction (summer school).

\$11.6 million to temporarily suspend the school library materials program;

\$21.8 million to reduce the Peer Assistance and Review program, leaving adequate funds to cover local Beginning Teacher Support and Assessment (BTSA) matches; and

\$29.2 million in additional program savings and reversions identified by the LAO.

Third, the Legislature adopted additional statutory language to provide additional flexibility to school districts in accommodating budget reductions. Beyond the reserve flexibility language proposed by the Governor, the Legislature also adopted new language allowing school districts to: tap into their local reserves in the current year, as tied to reductions; provide spending flexibility among the various Supplemental Instruction (summer school) budget items; continue to utilize AB 2519 instructional materials until June 2004; give first priority to instructional materials for English learners and grade 4-8 reading intervention; and eliminate the local match requirement for the deferred maintenance program.

Lastly, while the Legislature adopted a similar level of savings as proposed by the Governor in 2002-03, most of the savings are one-time only and do not continue in 2003-04. In contrast, the Governor proposes most of the 2002-03 reductions as ongoing reductions.

Major Adjustments for 2003-04

- **Growth Funding.** The budget fully funds statutory enrollment growth for apportionments to school districts, county offices of education and special education at a rate of 1.0 percent. The budget provides \$358.7 million for apportionment growth, including \$321.5 million for school districts, \$22.3 million for county offices of education and \$37.2 million for special education. The budget does not provide growth for any other categorical programs, except special education.
- **Cost-of-Living Adjustments.** No COLAs are proposed in 2003-04. (See **Program Reductions** below).
- **Deficit Factor.** The budget does not provide a “deficit factor” for revenue limit COLA’s reductions that would allow funds to be claimed and restored when economic conditions improved.
- **Restoration of Deferred Appropriations.** A number of education programs had all or some of their payments deferred on a one-time basis in 2002-03. These programs include Home-to-School Transportation, Supplemental Grants, School Improvement Program, and Targeted Instructional

Improvement Grants. In 2003-04, the budget estimates that \$315 million (net amount) is needed to restore these appropriations.

- **Equalization.** The budget proposes \$250 million for revenue limit equalization. This provides \$47 million over the \$203 provided pursuant to AB 2781 (Chapter 1167; Statutes of 2002) in 2002-03.
- **Public Employees Retirement System (PERS).** The budget proposes to fund the 9.5 percent increase in the PERS rate, providing a \$381.7 million increase in funds for school districts and county offices of education.
- **Unemployment Insurance (UI).** The budget provides \$35.2 million to cover reimbursements to local education agencies for UI costs associated with a doubling of the UI rates.
- **Set-Aside for Fiscally Troubled Districts.** The budget provides \$102 million in General Funds (non-Proposition 98) as a set-aside to cover possible emergency loans needed to cover fiscally troubled school districts.
- **State Special Schools.** The budget provides \$5.3 million to the two California Schools for the Deaf, the California School for the Blind, and the three California Diagnostic Centers to cover costs associated with increased health benefits for employees.

Program Reductions:

- **Cost of Living Adjustments (COLAs).** The budget does not fund cost-of-living adjustments (COLAs) for any education programs – revenue limits or categorical programs -- in 2003-04. This results in a savings of \$886 million. The statutory COLA for the budget year is estimated at 1.55 percent.
- **Categorical Growth.** The budget does not provide growth for other categorical programs, except special education, which saves an estimated \$106 million in 2003-04.
- **Across-the-Board Reductions.** The 2003-04 budget proposes to continue the across-the-board reductions of 2.15 percent for revenue limits and the 10.85 percent across-the-board reductions for most categorical programs. While not approved by the Legislature in 2002-03, these proposals would result in \$1.6 billion in savings if continued in the 2003-04. In addition to these savings, the Governor proposes an additional 1.28 percent reduction for most categorical programs (\$51.3 million) and a 3.66 percent reduction to categorical programs that were deferred in 2002-03 (\$70.9 million). (Programs exempt from the additional reductions include special education, child nutrition, child development, and K-3 class size reduction.) All together, these across-the-board reductions provide **\$1.7 billion** in savings in 2003-04.
- **Mandate Claims.** The budget proposes to continue the deferral of \$870 million in new education mandates identified by the Commission on State Mandates and deficiencies identified by the State Controller. (The Legislature approved deferral of an additional \$122 million in mandates in 2002-03.)
- **PERS Offset.** The budget does not provide funding to buyout the PERS offset and thereby proposes elimination of the \$35 million appropriated pursuant to Chapter 2, Third Extraordinary Session, Statutes of 2002.
- **Basic Aid Funds.** The budget proposes \$17.8 million to eliminate Basic Aid funding (\$120/ADA) to high property value districts that receive more property tax revenue than is needed to fully fund their revenue limits. The Governor proposes to meet the state's constitutional obligation to provide Basic Aid through the provision of categorical funds to these districts.

- **Property Tax for Basic Aid Districts.** The budget proposes \$126.2 million in General Fund reductions from excess property tax from Basic Aid school districts that would be redistributed to offset revenue limit costs for school districts and county office of education.
- **Year Round Schools.** The budget proposes a \$18.8 million reduction to the Year Round Schools grant program, which would be eliminated over a four-year period.
- **High Priority (HP) Schools Grants.** The budget reduces \$16.8 million to limit participation of first cohort II/USP schools to one year of participation in the HP schools program.
- **Charter School Facilities Grants.** The budget provides a \$6.6 million reduction in grants due to reduced demand for leased school facilities.
- **Regional Occupational Centers and Programs (ROC/P's).** A reduction of \$12 million is proposed to limit participation in ROC/P programs to students who are in 11th grade (or higher) or who are 16 years old.

Major Issues:

Categorical Programs Cuts Grant. The Governor proposes consolidating more than 64 education categorical programs into a single block grant. This new block grant would provide \$5.1 billion redirected from existing categorical programs, as adjusted by the Governor's across-the-board reduction proposals. Legislation would be required to repeal the statutes for all the programs consolidated in the block grant, since the Governor's proposal provides schools with full flexibility in using these funds.

Table 3 provides a listing of all the categorical programs (and related funds) the Governor proposes to collapse into the categorical block grant. The list includes many major categorical programs directed to serve special populations and specific purposes, such as Economic Impact Aid, Adult Education, ROC/Ps, Home-to School Transportation, Targeted Instructional Improvement Grants, and Instructional Materials. Elimination of these categorical programs will be a major issue for the Legislature, as many categorical programs have been established to reflect important educational goals and priorities.

Fourteen categorical programs are excluded from the categorical block grant, including: Special Education, Child Development, Child Nutrition, K-3 Class Size Reduction, Public Schools Accountability Act programs, High Priority Schools Grants, Principal Training, Summer School Programs (Supplemental Instruction), and Math and Reading Professional Development.

Suspension of AB 1781 Maintenance Requirement. The budget assumes suspension of the maintenance requirements under AB 2781, the original 2002-03 budget trailer bill. This bill required the state to restore reductions to Proposition 98 resulting from deferring education categorical program payments in 2001-02 and 2002-03. Under AB 2781, the state would have to restore these funds -- estimated at \$3.5 billion -- in one year. The Governor proposes suspending this requirement and paying for these restorations over time, as provided under the Constitution (Proposition 98).

Before and After School Programs. As part of the 2002-03 mid-year reductions, the Administration proposed to reduce funding for the Before and After School Learning and Safe Neighborhoods Partnership Program by \$3.9 million. Both the Senate and the Assembly concurred in this action and adopted additional reductions identified by the Legislative Analyst, for total programmatic savings of \$8.2 million in the current year. In 2003-04, the budget proposes to further reduce the program by \$3.9 million, which corresponds to both lower-than-expected participation levels and proposed K-12 categorical reductions.

Child Care Programs

Background. The state makes subsidized child care services available to (1) families on public assistance and participating in work or job readiness, (2) families transitioning off public assistance programs and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the “stage” of public assistance or transition the family is in. Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 child care services are either receiving a cash public assistance payment or are in a two-year transitional period after leaving cash assistance. Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the “working poor”). Child care services for Stage 3 are divided into two tiers, General Child Care is available on a limited basis for families with exceptional financial need while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

Current-Year Reductions. As part of the mid-year (2002-03) reductions, the Governor proposed to eliminate all Stage 3 CalWORKs child care services effective April 1, 2003. Both the Senate and the Assembly denied this request.

Child Care Realignment. As part of the 2003-04 Governor’s Budget, the Administration proposes to shift responsibility for the administration, oversight and fiscal management of subsidized child care services (along with other health and human services programs) from the State Department of Education to the local level. The proposed realignment of Child Care is estimated to save the state approximately \$1 billion. While the details of the realignment proposal have yet to be determined, under the Administration’s initial proposal, federal child care funds would remain with the Department of Education, pending legislation to solidify the realignment proposal. Further, the Department of Education would retain administration of the State Preschool and Before/After School Programs.

Since the Spring of 2000, the Administration has been undergoing a child care policy review with the goal of developing an alternative to the Stage 3 and Stage 3 set-aside programs, thus decreasing the total costs within all stages of child care. Under the current set of programs, the administration estimates that the out-year costs for Stage 3 would exceed more than \$650 million by 2004-05. Further, the Administration views the current Stage 3 and Stage 3 set-aside as inequitable and believes that the two-tiered system creates an incentive for families to seek public assistance in order to obtain affordable child care services. In order to remedy these equity and fiscal concerns, the Administration has proposed several options in recent years to implement programmatic and budgetary changes. Each proposal has been met with Legislative opposition. The Governor’s new proposal to realign responsibility for child care services from the state to local governments is the most recent of the Administrations efforts to revamp state-subsidized child care.

Special Education Funding Offset. The proposed 2003-04 budget includes \$115.6 million (\$135.0 million based on most recent estimates) in increased federal funds. As in the current year, these new funds will be treated as an “offset” to state funding and not as an augmentation that would increase special education base funding level by that amount. This offset complies with state law that requires federal funds to be used to supplant state funds in any year that total funding for special education funding is higher than the prior year.

Special Education Maintenance of Effort. The Governor proposes increasing ongoing General Funds for special education by \$56.8 million in 2003-04. This includes \$12.8 million for growth, which totals \$37.2 million in 2003-04, but is offset by \$23.6 million in property tax revenues. This General Fund increase also includes \$44 million to restore funds the Governor proposed to cut in 2002-03 as a part of the across the board reductions for categorical programs. The Legislature did not adopt this proposal, so this precise action may not be required. Instead, the Legislature took alternative action to reduce the 2002-03 budget by deferring major K-12 apportionment payments from June to July 2003, including \$214.1 million for special education. Since this is a permanent, annual deferral of special education payments, the Legislature will need to restore these funds in 2003-04 in order to meet maintenance of effort requirements under the federal special education law.

Realignment Funds & Proposition 98. The Governor proposes \$8.3 billion in new tax revenues to cover the costs of local services under a new state-county realignment initiative. As proposed, new taxes would include: \$4.5 billion from a one cent sales tax increase, \$2.6 billion by increasing 10 and 11 percent personal income tax brackets, and \$1.2 billion from a \$1.10 increase in the cigarette tax. The Governor maintains that these new state taxes would not generate additional funds to Proposition 98 since they are allocated to local government agencies. As required by the Constitution, Proposition 98 generally captures one-half of the proceeds from new state taxes.

State Mandate Reimbursements. The budget proposes reductions of \$870 million by continuing the deferral of several reimbursable education mandates to achieve savings in Proposition 98. By deferring these claims, the state is not eliminating its obligations. The state must eventually pay all claims once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

Table 3 – Categorical Programs Included in the Governor's Proposed 2003-04 Block Grant Amount Block Grant Proposal (in thousands)	
Targeted Instructional Improvement Grant	\$662,352
Adult Education	500,448
Home-to-School Transportation	467,315
Economic Impact Aid	438,989
Regional Occupational Centers/Programs (ROC/P)	342,307
School Improvement (Grades 1-6)	319,353
Supplemental Grants	229,906
Instructional Materials Block Grant Program/Incentive Grants	204,492
Staff Development Day Buyout	202,176
Deferred Maintenance	181,040
Class Size Reduction (Grade 9)	96,995
Teaching as a Priority Block Grant	78,038
Peer Assistance Review	76,611
Beginning Teacher Support and Assessment (BTSA)	75,403
School Safety lock Grant (8-12)	72,261
School Improvement (Grades 7-12)	66,619
Gifted and Talented	49,769
English Learners Student Assistance	46,832
California School Age Families Education (CalSAFE)	42,998
Charter School Categorical Block Grant	31,383
Community Day Schools	28,350
Elementary school Intensive Reading Program	26,892
Miller-Unruh Reading	25,465

School Library Materials	20,448
Partnership Academies	20,270
Dropout Prevention	19,266
Schools Apportionment, Apprentice Program	13,955
Adults in Correctional Facilities	13,946
Educational Technology – CTAP	13,918
Grade 7-8 Math Academies	11,232
National Board Certification Incentives	10,284
Tenth Grade Counseling	10,073
High Risk Youth Education and Public Safety Program	9,683
Safety -- School Community Policing	8,802
Teacher Recruitment Centers	8,275
Foster Youth Programs	7,705
Local Arts Education Partnership Grant Program	5,706
SAT College Preparation Partnership	4,755
Academic Improvement and Achievement	4,755
Administrator Training	4,650
Specialized Secondary Program Grants	4,521
Small School District Bus Replacement	4,012
Agricultural Vocational Education	3,811
American Indian Education Centers	3,452
Advanced Placement Teacher Training	3,190
Safety -- Plans for New Schools	2,854
Gang Risk Intervention	2,853
Opportunity Programs	2,298
Charter School Facilities Grant	2,254
Inter-segmental Staff Development	1,924
Special Education (Early Intervention for School Success)	1,910
Bilingual Teacher Training	1,583
Advanced Placement Fee Waivers	1,427
International Baccalaureate	943
Child Nutrition Breakfast Startup	880
Safety -- Schools Community Violence Prevention	616
Safety -- Partnership Mini-grants/Safe School Planning	553
Institute for Computer Technology	505
Native American Indian Education	486
Reader Services for the Blind	298
Safety - Conflict Resolution	267
Center for Civic Education	220
Pupil Residency Verification	142
Teacher Dismissal Apportionment	36
California Association of Student Councils	30
Total	\$5,142,451

6120 California State Library

The State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library administers and promotes literacy outreach programs such as the California Literacy Campaign, develops

technological systems to improve resource sharing and enhance access to information, and administers the Public Library Foundation Act, which establishes a formula under which the State contributes funding for basic local library services.

Current-Year Reductions. As part of his mid-year (2002-03) reductions, the Governor proposed reducing funding (for both 2002-03 and 2003-04) for the Public Library Foundation by 50 percent or \$15.8 million. Both houses of the Legislature denied this current year request, but will likely have to revisit this issue for the 2003-04 budget, since the Administration proposes to continue reduction into the next fiscal year.

2003-04 Proposed Reductions. The 2003-04 Governor's Budget proposal is unique in that, if enacted, it would allow local libraries to assess user fees for specific types of library loans, in particular: (1) inter-library loans (up to \$5 per book) and (2) "direct loans" which are made to individuals who are not residents of the library's service area (up to \$1 per book). Under current practice, the state helps cover the costs incurred by local libraries for these types of loans. The Administration proposes to eliminate this practice by allowing local libraries to keep the revenue derived from the fees, while reducing General Fund support by \$12.2 million.

Further, the Administration proposes to allow the California State Library (CSL) to assess user fees to cover its overall administrative costs. Under this scenario, the CSL would be allowed to require patrons (individuals and governmental entities) to purchase a library card in order to borrow materials or use its services.

HIGHER EDUCATION

6420 California Postsecondary Education Commission

The California Postsecondary Education Commission (CPEC) is a statewide postsecondary education coordinating and planning agency. CPEC serves as the principal fiscal and program advisor to the Governor and Legislature on postsecondary educational policy. CPEC's responsibilities include conducting analyses and making recommendations related to long-range planning for public postsecondary education, and analyzing both state policy and programs involving the independent and private proprietary educational sectors.

As part of the 2003-04 proposed budget, the Administration proposes to dramatically reduce the funding available for the California Postsecondary Education Commission by \$1.12 million and 23.5 personnel years, leaving only \$700,000 in operational support, 4.5 positions and \$5.3 million in grant and federal program dollars. The Administration entertained a similar proposal last year which would have essentially eliminated CPEC; however the Legislature denied the Governor's proposal and appropriated \$2.2 million to continue supporting the organization.

6440 University of California

The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20 members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry and veterinary medicine. The UC consists of nine campuses--Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz--which offer undergraduate, graduate and professional education. The University of California, San Francisco is solely dedicated to the health sciences, and a tenth campus is currently being planned and constructed outside of Merced in the Central Valley. In addition to its instructional facilities, the University operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses as well as operating the Sacramento, San Diego and Orange county medical facilities.

Current-Year Reductions. As part of the mid-year (2002-03) reductions, the Administration proposed reducing General Fund support for the University of California by \$74.3 million specifically targeted at: Academic and Institutional Support (\$20 million); Unused Research Funds (\$18 million); Student Services (\$6.336); AP on-time (\$4 million); Student Outreach (\$3.33 million); Public Service (\$2.5 million); K-12 Internet (\$1.1 million) and an unallocated reduction of \$19 million.

In order to recoup the funds lost through the current year unallocated reduction (\$19 million), the UC Board of Regents voted in December of 2002 to increase student fees by 10 percent annually, or 5 percent for the Spring Term. As is the policy of the Regents, one-third of the new revenue derived from the fee increase will be used to fund financial aid in order to support financially-needy students.

In response to the Administration-proposed reductions, the Legislature has made it clear that it is not supportive of either the reduction to Student Outreach or the full reduction to state-supported research.

Partnership for Higher Education. First initiated in 1995 as a “compact” with then Governor Wilson, the Davis Administration’s *Higher Education Partnership Agreement* sought to carry on many of the same principles, including the goal of providing stable funding for public higher education in exchange for the UC and California State University (CSU) commitment to meeting broad accountability goals. Unlike prior Davis Administration budgets which were predicated upon fully-funding the *Higher Education Partnership Agreement* this budget fails to honor that agreement due to the fiscal condition of the State.

While the Partnership Agreement initially promised annual General Fund increases of 5 percent (4 percent base budget increase plus 1 percent for long-term core needs such as maintenance, equipment and libraries), the 2003-04 proposed budget provides the UC with no core Partnership funds. This lack of Partnership support equates to an approximate \$186.5 million loss of expected revenue for the UC. While the lack of funding does not equate to a base budget reduction, the \$186.5 million revenue loss is included in the Administration’s calculation of total budget reductions it proposes for the 2003-04 fiscal year. Further, the loss of Partnership revenue is “real” to the UC, as it relies on this funding source to grow its academic programs and support the student services necessary to accommodate the dramatic spurt in enrollment growth. While the Administration fails to provide Partnership funding, it does fully fund enrollment growth (both in the current year and 2003-04) as well the continuing contractual obligations such as annuitant benefits and debt service.

2003-04 Proposed Reductions. In addition to the lack of expected Partnership revenue, for 2003-04, the Administration proposes to continue the current year reductions and increase the amount being reduced (for cuts totaling approximately \$299 million) from the following programs: Academic and Institutional Support (for a total reduction of \$36.5 million); Student Outreach (total reduction of \$33.3 million, which equates to 50 percent of the Student Outreach budget); Research (total reduction of \$28.8 million); Student Services (total reduction of \$25.3 million); and Public Service (mainly Cooperative Extension – for a total reduction of \$15 million).

In addition, the 2003-04 budget proposes to eliminate all but one of the California Subject Matter Projects, a teacher-training-teacher model of professional development, retaining the Science Subject Matter Project which is presently funded with federal dollars. This action will result in a General Fund savings of \$15 million.

The 2003-04 budget contains an additional “unallocated” reduction (total of \$194.8 million) which the Administration believes can be “backfilled” with further student fee increases. (*Note: please see discussion of student fees below.*)

Enrollment Growth. The Governor's 2003-04 budget contains \$117.2 million in new funding to support a 4.5 percent increase in student enrollment. This funding covers an additional 8,000 Full Time Equivalent (FTE) students in 2003-04 and 5,000 FTE students for which no support was provided in the current year, bringing total budgeted enrollment (all campuses, including health sciences) to 202,628 FTE students.

Student Fees. For the first time in eight years, student fees have been increased (in the current year) at the UC and are proposed to increase further in the 2003-04 budget year. Specifically, student fees were increased by the UC Board of Regents in December by \$135 per quarter in order to provide revenue to "backfill" the unallocated reductions to the UC support budget. This brings the total mandatory systemwide fees at UC to \$3,834 per year. Additional fees which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, nursing, veterinary medicine, theater/film/TV) were also increased by the UC Board of Regents and are expected to increase by anywhere from \$700 to \$2,000 per year, depending on the course of study. Fees at the UC comparison institutions (the universities of Michigan, Illinois, New York, and Virginia) average \$6,074, which is \$2,057 higher than the fees for UC resident undergraduates. Non-resident tuition, which was increased substantially for 2002-03, is slated to increase by approximately 4 percent for both undergraduate and graduate students.

	University of California Student Fees*			
	<i>Undergraduate</i>		<i>Graduate</i>	
	<i>Resident</i>	<i>Nonresident</i>	<i>Resident</i>	<i>Nonresident</i>
1994-95	\$4,111	\$11,810	\$4,585	\$12,284
1995-96	4,139	11,838	4,635	12,334
1996-97	4,166	12,560	4,667	13,061
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03*	4,017	16,396	5,017	16,393
2003-04	5,082	18,562	6,196	18,033

Note: Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an average of the campus-based fees for the nine campuses.

* Effective January 2003. UC Regents voted in December 2002 to increase student fees due to budget reductions.

UC Merced. Despite the poor economic conditions of the state and the lack of available General Fund support, the Governor and the UC continue to strive towards opening the new UC Merced campus to students in the Fall of 2004. To meet this end, the 2003-04 budget proposes to allocate an additional \$11.3 million for start-up costs associated with the Merced campus.

Specifically, the capital outlay portion of the budget in the current year (2002-03) includes \$205.6 million in predominately lease-revenue bond funds for working drawings and construction associated with all phases of site development and infrastructure (specifically related to site grading, drainage, flood control, roadways and utilities) construction of the Science and Engineering Building, the Library/Information Technology Center and the initial classroom and office building. In 2003-04, the Governor's Budget proposes an additional \$16.7 million in primarily General Obligation Bonds to continue Phase 3 of the site development and infrastructure, begin planning the logistical support and service facilities and make improvements and renovations to space at the former Castle Air Force Base which will be used to temporarily house various university functions while the campus is being completed.

Capital Outlay. Including the \$16.7 million proposed in the 2003-04 budget for the Merced campus, the budget proposes to fund 37 UC capital projects (17 previously approved projects and 20 new projects) using \$307.5 million in General Obligation Bonds approved by the voters in November of 2002.

6600 Hastings College of the Law

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of directors, who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of Law.

Current-Year Reductions As part of the mid-year reductions proposed by the Administration, funding for Hastings College of Law was reduced by \$1 million. For 2003-04, the Administration proposes total reductions of \$4.1 million (from a \$14.4 million base General Fund budget in 2003-04). Unlike reductions proposed for UC and the California State University, the reductions slated for Hastings College of Law are targeted at specific academic functions (rather than leaving the allocation of the reductions up to the Hastings College of Law Board of Directors) and will impact the core educational function of the college. Specifically, the Administration targets the reductions at law library and scholarly journal acquisitions, Moot Court travel costs, and prescribes that the college will replace visiting professors with adjunct professors.

In addition, the Administration anticipates that Hastings will increase student fees (commensurate with the differential fee adopted by the UC Regents for students enrolled in Law programs) and collect an additional \$4.5 million to offset the reductions proposed in the Governor's Budget.

6610 California State University

The California State University (CSU) system is composed of 22 campuses, including 21 university campuses and the California Maritime Academy. Administered and managed by an independent governing board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate- and graduate-level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic "general education" breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate- and masters-level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and in limited circumstances, has the ability to jointly offer doctoral-level education with the University of California and private and independent institutions.

Current-Year Reductions. As part of the mid-year (2002-03) reductions, the Administration proposed reducing General Fund support for the California State University by \$59.6 million. While the reductions to other higher education institutions were targeted at specific programs, the reduction to the CSU was "unallocated" and as such, the allocation of the cuts was left to the discretion of the CSU Board of Trustees. The Trustees acted to partially address the current-year shortfall by reducing funding for technology equipment, libraries, and scheduled maintenance as well as reducing support for administration, travel and filling only critically-needed staff positions. The remainder of the cuts (approximately \$20 million) are being "backfilled" by an increase in student fees, which was approved by the CSU Board of Trustees in December 2002. (*Note: please see discussion of student fees below.*)

Partnership for Higher Education. First initiated in 1995 as a "compact" with then Governor Wilson, the Davis Administration's *Higher Education Partnership Agreement* sought to carry on many of the same principles, including the goal of providing stable funding for public higher education in exchange for the UC and California State University (CSU) commitment to meeting broad accountability goals. Unlike prior Davis Administration budgets which were predicated upon fully-funding the *Higher Education Partnership Agreement* this budget fails to honor that agreement due to the fiscal condition of the State.

While the Partnership Agreement initially promised annual General Fund increases of 5 percent (4 percent base budget increase plus 1 percent for long-term core needs such as maintenance, equipment and libraries), the 2003-04 proposed budget provides the CSU with no core Partnership funds. This lack of Partnership support equates to an approximate \$132.6 million loss of expected revenue for the CSU. While the lack of funding does not equate to a base budget reduction, the \$132.6 million revenue loss is included in the Administration's calculation of total budget reductions it proposes for the 2003-04 fiscal year. Further, the loss of Partnership revenue is "real"

to the CSU, as it relies on this funding source to grow its academic programs and support the student services necessary to accommodate the dramatic spurt in enrollment growth. While the Administration fails to provide Partnership funding, it does fully fund enrollment growth (both in the current year and 2003-04) as well the continuing contractual obligations such as annuitant benefits, debt service and increased PERS costs.

2003-04 Proposed Reductions. In addition to the lack of expected Partnership revenue, for 2003-04 the Administration proposes to increase base budget reductions to the CSU to a total of \$324.6 million, and does so by imposing the following targeted reductions: Student Services Funding (\$53.2 million); Academic and Institutional Support (\$58.1 million); Student Outreach (\$12.6 million); Cal Teach (\$2 million); Unallocated Base Budget Reduction (142.8 million); Increase class size (Student-to-Faculty Ratio) (\$53.5 million).

Enrollment Growth. The Governor's 2003-04 budget contains \$150.8 million in new funding to support a 5.0 percent increase in student enrollment. This funding covers an additional 16,056 Full Time Equivalent (FTE) students in 2003-04 and 8,000 FTE students for which no support was provided in the current year, bringing total budgeted to 338,872 FTE students.

Student Fees. For the first time in eight years, student fees have been increased (in the current year) at the CSU and are proposed to increase further in the 2003-04 budget year. Specifically, student fees were increased by the CSU Board of Trustees in December by \$72 per term in order to provide revenue to "backfill" the unallocated reductions to the CSU support budget. Further fee increases are expected in 2003-04, which would bring the total mandatory systemwide fees at CSU to \$2,466 per year for a full-time undergraduate student and \$1,410 per year for a part-time undergraduate student. Fees at the CSU comparison institutions average \$4,584 which is \$2,118 higher than the fees for CSU resident undergraduates.

Capital Outlay. In addition to the \$188 million worth of project being funded in 2003-04 with lease-revenue bond funds, the budget proposes to fund 8 additional CSU capital projects (3 previously approved projects and 5 new projects) using \$192 million in General Obligation Bond funds approved by the voters in November of 2002.

6870 California Community Colleges

The California Community College system (CCC) provides a variety of general and vocational education program at 108 community colleges throughout the state. The CCC offers academic programs that (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education of California's work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering many of the state's economic development programs.

Current-Year Reductions. As part of the mid-year reductions, the Governor proposed reducing funding for the California Community College system by \$288 million. Included in this amount is a \$50.9 million "swap" which would change the funding source for the Extended Opportunity Programs and Special Services (EOPS) from General Fund (Prop. 98) to the Proposition 98

Reversion Account. Also included under this reduction proposal is an ongoing \$80 million cut to the community colleges for alleged concurrent enrollment abuses (involving K-12 students enrolling in unauthorized community college classes).

Both the Assembly and Senate have voted to approve a total of \$174.6 million in mid-year reductions for the community colleges, which include:

- \$129 million in programmatic/categorical program reductions to the community colleges. These reductions were both identified and “approved” by all the various community college constituency groups. Included in the package adopted by the Legislature is a \$12 million augmentation to reduce the impact of the reductions on the Basic Skills program.
- \$33.3 million “swap” which changes a portion of the funding source for the Partnership for Excellence Program - from General Fund (Proposition 98) to Proposition 98 Reversion Account.
- The Legislature denied the Governor’s proposal to cut \$80 million for K-12 concurrent enrollment.

2003-04 Proposed Reductions. In the 2003-04 budget year, the Governor proposes to further reduce funding for the California Community Colleges above the amount proposed in the current year. Additional reductions include: \$60.3 million for an across-the-board 7.46 percent reduction to all community college categorical programs and \$211.5 million for reductions targeted at: the Partnership for Excellence; Student Outreach; EOP services; Matriculations; Part-Time Faculty Office Hours; Economic Development; Building Maintenance and Repairs; Instructional Equipment and Library Materials. Additional reductions include a \$3.2 million cut from Student Outreach, which represents 50 percent of the program’s budget; further, the Administration does not provide a COLA to either the community colleges or K-12.

Enrollment Growth. The Governor’s 2003-04 budget proposes to provide \$115.7 million to fund a three percent increase in student enrollment growth. While UC and CSU are proposed to be fully-funded for enrollment growth of five and 4.5 percent respectively, for both 2003-04 and 2002-03, community college enrollment funding has continuously failed to keep pace with actual student enrollment, as is evidenced by the over 60,000 full time equivalent students (FTES) currently enrolled on community colleges campuses throughout the state.

Student Fees. For 2003-04, the Governor proposes to increase student fees over 100 percent, from \$11 per unit to \$24 per unit, increasing the cost for a full-time student from \$396 per semester to \$864. Although the Governor’s budget states that the fee increase is necessary to “continue providing a quality education and maintain access amidst weak economic conditions”, the \$149 million in revenue which is expected to result from the fee increase does not remain on the campuses but flows back to the General Fund (through a General Fund offset).

At present, approximately 40 percent of community college students are eligible for Board of Governor (BOG) Student Fee Waivers, and the Administration believes that this percent will likely remain constant. However, the Administration also believes that the fee increase will lead a substantial number of students to drop out (or simply fail to enroll). In anticipation of this

attrition, the Governor's Budget cuts core instructional funding for the community colleges by an additional \$215 million.

Proposition 98 "Split" The community college share of the Proposition 98 guarantee is slated to decrease substantially from approximately 10.2 percent in the current year (2002-03) to 9.22 percent.

Capital Outlay. The Governor's 2003-04 Budget proposal includes \$526 million in General Obligation Bond funds, approved by the voters in November of 2002, for 45 previously approved projects and 52 new projects.

7980 Student Aid Commission

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants, work study, and loan programs for postsecondary students attending California educational institutions. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state's student population and, provides financial aid information to students, parents and California's education community.

Background. In 2000 the Legislature passed and the Governor signed into law SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth up to approximately \$8,000 to \$9,000 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

To be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 ("B" average) and must not exceed the family income limit, which is approximately \$66,000 for a family of four or \$77,000 for a family of six. Students with GPAs under 3.0, but higher than a 2.0 ("C" average), are eligible for a Cal Grant "B" award provided their annual family income does not exceed \$34,800 for a family of four. In addition, community college students meeting specified GPA and income requirements, who are transferring to a four-year college or university, prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA or income requirements) have a "second chance" to receive a Cal Grant and are eligible to compete for a bloc of 22,500 annual awards, provided they are now financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

2003-04 Proposed Adjustments. As part of the Governor's 2003-04 Budget proposal, the Cal Grant A and B programs are slated to increase by approximately \$48.3 million to cover the

proposed student fee increases at public postsecondary institutions. In contrast, the Administration proposes to reduce -- by nine percent -- the maximum Cal Grant award paid to students attending private colleges and universities. At present, the current maximum award is \$9,708, that amount will be decreased to \$8,832 for new Cal Grant recipients electing to attend a private institution.

As part of the Governor's budget reduction measures, the 2003-04 budget proposes to eliminate the California Workstudy Program, reduce the number of Cal Grants for vocational students (Cal Grant C) by 3,040 leaving 7,690 awards available annually, and further reduce the number of Cal Grant T awards for teacher credentialing students by 540 (from 1,390 to 850 awards available annually).